Ontario Power Generation

Minister's Briefing on OPG Business Plan

June, 2018

ONTARIO POWER GENERATION

OPG Business Plan

- The 2018-2021 BP sets ambitious but achievable goals and targets, and will deliver increased value to the Shareholder and Ontario electricity customers.

- OPG will remain focused on the successful execution of the Darlington refurbishment while providing reliable, safe and economic electricity.

Net Income & Return on Equity

- Cumulatively for the 2018-2021 period, forecast operating net income levels are a plan-over-plan improvement of ~$390M
- The major drivers to changes in Operating Net Income include:
  - Higher production at Pickering reflecting lower forced loss rate target and fewer outage days
  - Higher revenue from regulated hydro production due to higher operating efficiency and assumed deferral of the Beck canal outage
  - Company-wide reductions in OM&A costs of ~$600M
  - Lower regulated revenue and other impacts reflecting disallowances and other adjustments from the OEB's 2017-2021 rate decision

* Net of Tax
** Total ROE = Operating ROE + Fair Hydro Trust Earnings + Gains on sale of the 700 University Ave. property and Lakeview site

Total Return to Shareholder: Province's Fiscal Basis

- On the province's fiscal basis, the total return to Shareholder has increased over time and displays a positive trend over the planning period
- The one-time gain in 2018 represents the sale of 700 University Ave. property and the Lakeview site
- OPG expects to contribute ~$5.9B over the 2018-2021 period (excluding the impact of the Fair Hydro Trust), an increase of more than $800M from the previous plan
- Earnings Before Tax (EBT) from Fair Hydro Plan is $15M, $80M, $150M and $225M for fiscal years ended March 31, 2018-2021

Key Elements of 2018-2021 Plan

- **Customers:** OPG’s intent is to ensure consumer prices are moderated by maintaining the 40 % price differential with other generators. Our payments application shows an annual residential increase of 65 cents per month for five years. OPG is also committed to maximizing efficiencies in its operations.
- **Pickering Relicensing:** The Plan reflects the continued investment and work to support continued operations until 2024. Continued operations provide benefits for the environment, the electricity system and ratepayers. A key piece of this will be the CNSC hearings for a renewed operating license.
- **Darlington Refurbishment:** The U2 refurbishment continues to track on time and on budget. OPG will spend about $540 million between 2018-2020 to support planning for U3.

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Key Elements of 2018-2021 Plan

- **Collective Bargaining:** The OEB sent clear signals that several of OPG's costs do not benchmark favorably. This includes compensation. The total compensation is above median. The 2018 contract talks with the PWU and Society provide a opportunity to address this through bargaining.
- **Fair Hydro Plan:** OPG has commenced its role as financial services manager for the FHP. Through this process OPG will earn financial returns that will be returned to the province via net income.
- **OPG Capital Allocation:** The improving financial performance, cost effective public debt program and industry experience position the company well for developing a portfolio of organic and investment options in low carbon assets and extensions to the business. The balance sheet could support upwards of $3 billion in investment beyond what has been included in the business plan.

Key Core Initiatives

- **OPG 2025:** This program will address the cost structure implications of Pickering closure through the design and implementation of an optimal cost effective organization.
- **Darlington for The Future:** This is closely related to OPG 2025 and seeks operational excellence post-refurbishment.
- **Equity Optimization:** This imitative ensures that the OPG balance sheet can support our capital program, innovation investments and support shareholder needs while maintaining our existing credit rating.
- **Building our Business:** OPG strives to be the leader in the North American transition to a low carbon future. This initiative focuses on maintaining and enhancing OPG's scale and leadership across carbon-friendly platforms.